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RUEHKL/AMEMBASSY KUALA LUMPUR 0017
RUEHLO/AMEMBASSY LONDON 1981
RUEHNE/AMEMBASSY NEW DELHI 0021
RUEHFR/AMEMBASSY PARIS 0198
RUEHRO/AMEMBASSY ROME 0134
RUEHUL/AMEMBASSY SEOUL 0037
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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 003933

SIPDIS

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SUBJECT: INCREASING FINANCIAL PRESSURE ON IRAN - JOINT
DEMARCHE DELIVERED

REF: STATE 127040

Classified By: Ambassador Ryan C. Crocker for reasons 1.4 (b and d).

¶1. (C) SUMMARY: Italian, French, British and US Chiefs of Mission (COM) delivered subject demarche to Iraqi Foreign Minister (FM) Zebari, emphasizing their governments' unified commitment to implementing rigorously all relevant UNSC, EU and bilateral sanctions and to pressuring Iran to turn away from activities that violate its nuclear non-proliferation commitments. The Ambassador underscored our concern that Iranian entities are specifically seeking to exploit Iraq's financial system to fund their prohibited activities and that great vigilance is required particularly in the banking sector. Zebari said that Iraq does not want a nuclear-armed neighbor and that the GOI has sought on two specific occasions to formally dissuade Iran from its nuclear ambitions. He also agreed that the GOI and the Central Bank of Iraq (CBI) need to do more to monitor Iranian activity in the Iraqi banking sector. However, he was skeptical about any Iranian change of behavior in the short term, and suggested that he needed to do some work to convince the Iraqi Central Bank (CBI) and Ministry of Finance (MOF) to take tougher measures against Iranian banks. END SUMMARY.

¶2. (SBU) The Italian, French, British and US COMs jointly delivered subject demarche to Iraqi FM Hoshyar Zebari Dec. ¶12. (Although the German Ambassador was unable to attend, his EU partners noted that his government fully associated it with the demarche.) They emphasized that their governments were united in their efforts to dissuade Iran from its proliferation-sensitive nuclear activities. They also noted that their governments were presenting similar demarches to several governments in the region, in a effort to show Iran that both the wider international community and Iran's immediate neighbors were unified in their opposition to its Iranian efforts to finance activities in violation of UNSC and EU sanctions. The international community does not oppose peaceful civilian nuclear activities in Iraq and its offer to help Tehran pursue that goal "remains on the table." However, given Iranian intransigence, the only remaining hope is international solidarity in enforcing the provisions of UNSCRs 1737, 1747 and 1803.

¶3. (C) The COMs also underscored the importance of Iraq's taking increased steps to protect its own financial sector

from Iranian efforts to exploit it as a means of financing prohibited activities. Ambassador Crocker noted that we were aware of and grateful for the steps the GOI had already taken, but he urged the GOI to exercise greater vigilance in the granting of licenses to Iranian banks; irregularities and questionable procedures needed to be viewed in the context of persistent Iranian efforts to get around the UN sanctions and dealt with accordingly.

14. (C) Zebari responded by noting that he and the MFA fully shared our concerns. Because of its history, geography and background with Iran, "Iraq should be the most concerned" about Iran's efforts both to exploit the Iraqi financial system and to obtain nuclear weapons. We do not need a neighbor that would use its weapons to intimidate its neighbors -- something a nuclear-armed Iran would certainly do, Zebari continued; however, the Iranians feel militarily insecure and feel they can only achieve security by obtaining such weapons. He described GOI efforts to urge Tehran to "learn the lesson of Saddam Hussein" and abandon all proliferation-sensitive activities, but that its demarches fell on deaf ears and left the Iranians feeling "very insulted." Zebari also agreed that EU, US and regional solidarity on this question was crucial, but cautioned that Iran was becoming very adept ("just like Saddam was") at exploiting any gaps in the international community's united front (referring specifically to China and Russia). "As far as Iran changing its behavior, I doubt it. They are very determined," Zebari concluded. However, he agreed that we must continue to make the effort.

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15. (C) Regarding the Iranian threats to Iraq's domestic banking sector, Zebari said that the MFA has led an internal effort to press the MOF, the CBI and other GOI financial entities to exercise vigilance in ensuring that Iraqi financial institutions provide no services or assistance to Iranian entities involved in proliferation-related activities or in circumventing the provisions of the three UNSCRs. He complained that the Central Bank's legal advisors had quibbled with the term "vigilance," rejecting the MFA's suggestion that the CBI should simply suspend all activities with Iranian banks and other firms that are involved in prohibited activity. Ambassador Crocker replied by noting that there is no ambiguity in the UNSCRs' intent -- which is clearly to put enough pressure on Tehran to force it to comply and enter into dialogue -- and he urged Zebari to make that point to others in the GOI.

CROCKER